MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BAC 2674 – TAXATION 1

(All sections / Groups)

15 OCTOBER 2015
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 12 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Ms. Mandy is a sole proprietor who sells handmade cookies at Jonker Walk, Melaka. The income statement for Mandy's sole proprietor business for the year ended 31 December 2014 is as follows:

	Note	RM	RM
Sales			160,000
Cost of sales	1		(35,400)
Gross profit			124,600
Add: Other income			
Gain on disposal of investment property	2		100,000
			224,600
Donation and contribution	3	8,450	
Legal charges	4	1,500	
Entertainment	5	2,000	
Utility	6	3,145	
Stall rental	7	300	
General and administrative expense	8	1,100	
Advertisement expense	9	1,750	
Salaries expense	10	16,560	
Motor vehicle expense	11	1,940	
Bad debts	12	2,400	
Insurance expense	13	1,400	40,545
Profit before taxation			184,055

Notes:

1. The cost of sales includes obsolete inventories written off of RM3,000 and depreciation of plant, property and equipment of RM4,640.

2. Ms. Mandy acquired a property in Thailand for an amount equivalent to RM100,000 and disposed it off for an amount equivalent to RM200,000. The net proceeds were received on 17 May 2014.

3. Donation and contribution of RM8,450 comprise:

	RM
Cash sponsorship of Ms. Mandy's son wedding dinner	8,000
Cash contribution for a community project in Thailand (not a project of national interest)	450
Total	8,450

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4. Legal charges of RM1,500 consists of :

	RM
Interest expense from a bank loan for business purpose	1,200
Penalty for traffic offences	300
Total	1,500

5. Entertainment of RM2,000
This is the amount incurred for the Chinese New Year dinner treat held by Ms. Mandy at her home to thank her business associates for their overwhelming support for her cookies business.

6. Utility cost of RM3,145 incurred for business purpose consists of:

	RM
Water and electricity	2,715
Telephone bill	430
Total	3,145

7. Stall rental of RM300 was spent on local food fair held at MITC, Melaka.

8. General and administrative expense of RM1,100 is trade related.

9. Advertisement expense of RM1,750 refers to the payment made to local magazine to advertise Ms. Mandy's handmade cookies business.

10. Salaries expense of RM16,560 is trade related. However, included in this amount consists of RM2,000 paid as Ms. Mandy's own salary.

11. Motor vehicle expense of RM1,940 consists of:

	RM
Insurance on delivery van used in the business	1,500
Service expense incurred on the delivery van used in the business	440
Total	1,940

12. Bad debts of RM2,400 consists of:

	RM
Bad debts written off	1,000
Default debt by a worker	1,400
Total	2,400

Continued...

13. Insurance expense of RM1,400 was incurred on the fire insurance of the business premise.

Other information:
For the year of assessment 2014, capital allowances were RM8,000 and the unabsorbed business loss brought forward from the year of assessment 2013 was RM700.

Besides the sole proprietor business, Ms. Mandy also received the statutory rental income amounted to RM9,000 in the year of assessment 2014.

In the middle of July 2014, Ms. Mandy won a lottery and received RM20,000 from the lottery company.

Required:

Compute the total income for Ms. Mandy for the year of assessment 2014.

Note: Your computation for Ms. Mandy's sole proprietor business should start with the 'profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate column for any item that does not require adjustment. You do not need to provide explanation for the adjustment(s) made.

[Total: 20 marks]

QUESTION 2 (20 MARKS)

(a) Janice , aged 36, is a widow. She has been working as a senior manager at a multinational firm located at Cyberjaya, Selangor since year 2006. Janice has an 11 year old son who is currently studying at an international primary school. She was provided with the following remuneration package by her employer in year 2014.

i. Gross salary of RM10,500 per month .

ii. Travelling allowance totaling RM9,000 .

iii. Entertainment allowance totaling RM4,000 .

iv. A new car costing RM195,000 and a driver with a monthly salary of RM2,100. No fuel was provided. Janice has been enjoying this benefit since 1 January 2013.

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v. A fully furnished apartment. The monthly rental paid by the company was RM2,200. Janice has been occupying this apartment since year 2010.

vi. An innovation award of RM18,000 for being the most creative employee of the year, was paid to Janice in August 2014.

Other income:

An amount of equivalent to RM35,000 was earned from a fixed deposit placed in a bank in Singapore. This amount was received on 31 July 2014, out of which RM17,000 was remitted to Malaysia on 30 September 2014.

For the year of assessment 2014, Janice incurred the following expenses:

i. She donated food and beverages of RM2,000 to an orphanage located at Petaling Jaya, Selangor.

ii. She purchased books for her son amounting to RM1,080.

iii. She made a cash contribution of RM4,000 to an approved charitable institution.

iv. She incurred medical expenses of RM10,700 for her parents and RM6,000 for her aunt who was certified having a serious disease.

v. She paid education insurance premium for her son amounting to RM3,600.

vi. She paid RM15,000 school fees for her son.

vii. She contributed RM13,860 into the employee's provident fund.

viii. She spent RM5,000 to entertain her company's clients (relating to her official duties).

ix. She spent RM2,100 on her own medical insurance .

x. She incurred travelling expenses of RM7,000 for her official duties.

Required:

Compute the chargeable income for Janice for the year of assessment 2014.

Note: You are required to include each and every item stated in the question in your tax computation. Indicate 'nil' in the appropriate column for any item that does not require adjustment.

(15 marks)

Continued...

(b) Amy has been performing well in her job and her employer , Mr. Tay is considering improving her remuneration package by offering her a leave passage of up to a maximum of RM9,000 per year, including hotel accommodation and meals. She has approached you for information on the tax treatment of leave passage for travel, hotel accommodation and meals.

Required:

Explain the tax treatment, from the employee's perspective, of both local and overseas leave passages for travel, hotel accommodation and meals and state which would be more tax efficient for Amy.

(5 marks)
[Total: 20 marks]

QUESTION 3 (20 MARKS)

a) Golden Packaging Sdn Bhd (GPSB) is involved in manufacturing and supplying paperboard for local and overseas market. The company is located at Shah Alam, the industrial area in Selangor. It started the business on January 2000 with paid up capital of RM4.5 million. For the year ended 31 December 2014, the company had incurred the following expenditures:

		RM
(i)	Printing and cutting machines (general plant and machinery)	70,000
	Installation cost of the new printing and cutting machines	5,000
(ii)	Office equipment	12,000
(iii)	Renovation of the administrative office	15,000
(iv)	Lorry and van	135,000
(v)	Proton Perdana for use of directors	
	Cost of car	125,000
	Less: Deposit	(25,000)
	Hire purchase finance	100,000
	Add: Hire purchase interest	26,000
	Total sum repayable	126,000
	Number of instalments with effect from 1 May 2014	60 months

The management of the company plans to buy a Japanese car for its foreign director. Hence, the Proton Perdana will only be used for 2 years. It will be replaced with new Japanese car in the next two financial years.

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Required:

(a) Compute the capital allowance(s) and residual expenditure(s) applicable to GPSB for the year of assessment 2014.

(15 marks)

b) State the conditions that must be satisfied in order to claim capital allowance under the Income Tax Act 1967 (as amended).

(5 marks)

[Total: 20 marks]

QUESTION 4 (20 MARKS)

(a) How is the resident status of an individual being determined under the Income Tax Act 1967 (as amended)?

(8 marks)

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(b) Professor Joanne, an interactive software expert from Germany was engaged by the Multimedia University to teach in Cyberjaya and Malacca Campus. Her pattern of stay was as follows:

Period of stay	Number of days in Malaysia
1.10.2008-15.11.2008	46
1.12.2008-31.12.2008	31
1.3.2009 – 30.4.2009	61
15.8.2009 – 30.11.2009	108
1.11.2010-31.12.2010	61
1.1.2011-31.3.2011	90
1.4.2011-9.4.2011	Social visit
10.4.2011-15.7.2011	97
22.7.2011-31.8.2011	41
1.10.2011-10.12.2011	71
1.1.2012-29.2.2012	60
1.7.2012-31.7.2012	31
15.8.2012 – 15.9.2012	32
1.2.2013-28.2.2013	28
1.1.2014-31.3.2014	90
1.7.2014-31.7.2014	31
1.10.2014-20.10.2014	20
2.11.2014-24.12.2014	53

Required:

Determine the resident status of Professor Joanne for each of the relevant year of assessment, indicating the relevant applicable section of the Income Tax Act 1967 (as amended).

(12 marks)
[Total: 20 marks]

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QUESTION 5 (20 MARKS)

a) Dr Yeo is a full time geomatics engineer at the Ministry of Energy, Green Technology and Water. Last two years, he decided to take advantage of the bond market, which was on an upswing trends from the year 2013 to 2014, by holding bonds as investments. He had appointed an investment manager to manage his bond investments. Over these 2 years (1 January 2013 to 31 December 2014), he had made 40 transactions of buying and selling bonds. He had made in total of 25 transactions of buying and selling. From these transactions, he had made total gains of RM240,211.05 in the year of 2013 and a further gain of RM128,700.15 in the year of 2014.

Dr. Yeo had entered the bond market for investment purposes and he had no knowledge or experience investing in the bond market. According to him, during these years, 2013 to 2014, an investor did not need any particular skill to invest in bonds, because bonds were appreciating in value. Dr. Yeo treated the gains made on the bond market as capital receipts. However, Mr. Subra, a close friend of Dr. Yeo and who is also the tax agent in Malaysia had advised him over a cup of coffee that the profit from this particular transaction may be liable to income tax.

Required:

Explain whether Dr Yeo's profit from the transaction in bond market would be liable to Malaysian income tax.

(10 marks)

b) Mr. Fuad, aged 48 is a marketing manager of Eureka Sdn Bhd. He has been working with the company for the last 12 years. In recent years, the company suffered huge losses due to the financial crisis in the region. The top management and the board of directors decided to restructure the business. As part of its restructuring and reorganisation strategy, the management decided to offer an early retirement scheme to its staff. Mr. Fuad is one of the staff who is offered for the scheme.

On his retirement, Mr. Fuad is paid a gratuity of RM120,000. He is also provided with compensation for loss of employment RM110,000. In relation to the compensation, an agreement is included stating that it is made on condition that Mr. Fuad must refrain from any employment or carry on any business in direct competition with the company upon his early retirement.

Required:

(i) **Explain whether Mr. Fuad would be chargeable to income tax on the sum of RM230,000 received?**

(6 marks)

Continued...

(ii) **Explain whether Eureka Sdn Bhd could claim the sum of RM230,000 paid as a deductible expenditure based on the Income Tax Act 1967 (as amended).**

(4 marks)

[Total: 20 marks]

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Appendix 1

Tax rate for resident individual (year of assessment 2014)

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0-2500	On the First 2,500	0	0
2,501-5,000	Next 2,500	0	0
5,001-10,000	On the First 5,000 Next 5,000	2	0 100
10,001-20,000	On the First 10,000 Next 10,000	2	100 200
20,001-35,000	On the First 20,000 Next 15,000	6	300 900
35,001-50,000	On the First 35,000 Next 15,000	11	1,200 1,650
50,001-70,000	On the First 50,000 Next 20,000	19	2,850 3,800
70,001-100,000	On the First 70,000 Next 30,000	24	6,650 7,200
Exceeding 100,000	On the First 100,000 Next RM	26	13,850 .....

Non-Resident Individual Rate (year of assessment 2014)

Non-resident person other than companies: 26%

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Capital allowances

	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

Benefits in Kind (BIK)

(a) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

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(b) Value of motor vehicles

Cost of vehicles (new) RM	Annual Value of BIK RM	Fuel per annum RM
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

Personal relief and allowances applicable for the year of assessment 2014 and subsequent years of assessment

	RM
Self	9,000
Disabled self	6,000
Medical expenses expended for parents	5,000
Medical expenses expended on self, spouse or child with serious disease, (including up to RM500 for medical examination)	5,000
Basic supporting equipment for disabled self, spouse, child or parent	5,000
Fees expended for skills or qualifications	5,000
Expenses on books for personal use	1,000
Spouse relief	3,000
Disabled spouse - additional	3,500
Child each	1,000
Disabled child each	5,000
Life insurance premiums and contributions to approved provident funds	6,000
Medical or education insurance premiums for self, spouse or child	3,000
Purchase of a personal computer	3,000
Purchase of sports equipment	300

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